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SUBJECT: CAMEROON'S ECONOMY: BACKDROP TO A WEEK OF VIOLENCE

REF: A. YAOUNDE 005

¶B. YAOUNDE 199 AND PREVIOUS

¶1. (SBU) Summary: Cameroon's economic outlook portends continued tepid growth despite high oil prices, reflecting low levels of investment, poor execution of the budget, and the reduced competitiveness of agricultural exports. Recent conversations with IMF and World Bank officials underscore frustrations with Cameroon's business climate and economic governance. For the past year, many have perceived inflation to be rising; recent increases in the prices of fuel, beer, bread and many other commodities reinforce inflationary concerns and were a major factor in sparking a week of civil unrest. While there is stated political will to jump-start the economy, the Government of Cameroon (GRC) appears unwilling to take bold moves to tackle the bureaucracy and corruption holding back growth. The violence over the past week -- the worst in Cameroon in more than 15 years -- could undermine the investment climate and the overall economy, especially if it leads to further unrest. Even without this potential impact, the economy appears set to continue to muddle along on a slow-growth path. End summary.

A Violent Week

¶2. (U) Over the past week Cameroon has experienced the worst political violence since the early 1990s. As reported ref B and through daily sitreps, transport workers went on a national strike on February 25 to protest high fuel prices (gas prices rose by 20 CFA in the previous week - about 4 cents - to 600 CFA per liter, about $5.06 per gallon). However, this was the latest in a string of incremental fuel price rises, mirroring rising international oil prices. The strikers were joined by masses of people in Douala, Yaounde, and the West, Littoral, South West and North West Provinces, who voiced a mix of grievances, from rising fuel prices to the high cost of other essential commodities and President Biya's announced plans to amend the constitution to eliminate presidential term limits.

¶3. (U) Throughout the week, groups of people (many of them youths) barricaded roads, burned buildings (including many

gas stations), set tires ablaze, and confronted security forces, who responded with force that left 16 or more dead and many others injured. Commerce in the affected areas, which included Yaounde and Douala (Cameroon's two largest cities), came to a virtual halt. On February 26 the government and the transport union reached an agreement to cut the gas price by 6 CFA. President Biya delivered a speech to the nation the night of February 27 in which he promised to use "all legal means" to restore order. The speech was followed by a heavy deployment of security forces, bringing the violence to a stop (at least for now).

¶4. (U) While the week's violence was not all about economics, the country's economic problems and growing poverty were a significant contributing factor. Neither the government's deal with the union nor the President's speech to the nation addressed the country's underlying economic problems. This message explores the economic backdrop of the past week. We will report septel about the political dynamics at work.

Weak Growth Outlook

¶5. (U) In his New Year's speech to the nation, President Biya projected GDP growth at 4.5 to 5.5% in 2008. A look at the economic data, however, suggests there is little to spur growth much above its 3% average over the past three years. The GRC has no control over monetary policy (which is determined by the regional central bank, BEAC) and can offer little fiscal stimulus. The 2008 budget straight-lined overall spending (ref A), with only a slight increase in public investment and, in any case, execution of the budget is perennially weak. The December 2007 Economist Intelligence Unit report on Cameroon predicts 2008 will bring increases in wages and capital expenditures, financed by marginal increases in revenue from higher oil prices, slight increases in oil output, and enhanced tax administration. This will reportedly have the overall effect of reducing the fiscal surplus from 5% of GDP in 2007 to 4.1% of GDP in 2008. The government benefited from billions of dollars in debt relief under the HIPC program in 2006, but has not been able to re-channel much of this money into the economy, apparently because of bureaucratic bottlenecks.

¶6. (U) There is very little industry (less than 3% of GDP) or growth in domestic investment. IMF figures estimate gross investment as a percentage of GDP dropped from 19.1% in 2005 to 16% in 2006. This figure is expected to rise back to 18.6% in 2007. An expected strong performance in the construction, forestry and (possibly) mining sectors, as well as likely continued moderate growth in agriculture, could help improve the results in 2008. However, a steady erosion of trade preferences with the European Union, combined with the appreciation of the currency (FCFA), is expected to limit new investment in the cash crop sector. While there is no good data on foreign direct investment (FDI), there is no question that FDI is limited by Cameroon's difficult business environment and lack of knowledge about business opportunities.

¶7. (U) The real growth of private consumption in 2008 is expected to remain at about 4%. Export volume growth between 2006 and 2007 dropped significantly from 8% to 3%, with no real diversification and a reduction in exports of cotton, coffee and bananas, three of the mainstays of the non-oil economy. The Economist Intelligence Unit forecasts a significant worsening in Cameroon's trade balance from $363 million in 2006 to $195 million in 2007 and negative $65 million in 2008. The overall current account balance is predicted to slide more precipitously, from a deficit of $290 million in 2007 to a deficit of $662 million in 2008.

The IMF's Review

¶8. (U) The IMF Executive Board completed its fourth review of Cameroon's economic performance in December 2007. The

Board praised Cameroon's fiscal performance and "structural measures to strengthen public finance management." It called for greater efforts to implement reforms in investment execution, rural finance, and public enterprise performance. It noted the need to expand the tax base, improve execution of public spending, ensure prudent debt management, improve the business climate, strengthen the financial sector, and pursue anti-corruption efforts. The Board approved a $4.1 million disbursement, for a total of $20.7 billion disbursed out of the $29.1 million (18.57 million SDR) committed under the 2005-2008 Poverty Reduction and Growth Facility (PRGF) that will end in June 2008.

¶9. (SBU) Malangu Kabedi-Mbuyi, the IMF's Resrep in Cameroon, gave a decidedly downbeat assessment of the Cameroon economy in a recent meeting with Pol/Econ Chief. Since the start of the PRGF in 2005, the GRC had increased transparency in monitoring government expenditures (with better data) and made some progress in revenue collection, she said. However, she was discouraged by the low execution of the investment budget and the concomitant implications for future economic growth. On civil service reform, the IMF believes a census and broad-based reform are needed to remove ghost workers and irregularities in the personnel system before contemplating salary increases, she said, questioning the GRC's political will on this issue, given its glacial movement on reform. She was also discouraged by the lack of progress in privatizing CAMAIR (whose annual losses total 36 billion CFA, or around $80 million) and CAMTEL, noting that the SONARA refinery is also a major drain on government coffers. She was also concerned about the potential for Cameroon to take on new commercial debt.

¶10. (SBU) Given these issues, the problems in the business climate, and poor infrastructure investments, Kabedi-Mbuyi

thought the GRC's GDP growth projections for 2008 could be unrealistic. An IMF/World Bank assessment team in Yaounde last week gave a similar review of the economy to the Ambassador, noting improvements in budget management but highlighting poor performance in the social sector, frustrations with CAMAIR, and concerns about government pressures to subsidize fuel prices.

World Bank Views

¶11. (SBU) World Bank Chief Economist Abdoulayi Seck shared many of the IMF's concerns in a separate conversation with Pol/Econ Chief. He highlighted the GRC's inability to adequately spend its investment budget as a result of procurement bottlenecks, bad planning, bureaucratic constraints, and even weather patterns (Cameroon's several rainy seasons make construction difficult). He was discouraged by a legion of business climate challenges, including arbitrary taxes, and the difficulties in opening and closing businesses, as reflected in Cameroon's low ranking in the Bank's annual Doing Business report (154 out of 178 economies worldwide). Private companies lose 5% of turnover to power problems and 5% to corruption, making industry highly inefficient, he said. Unless reforms are implemented and investment picks up, he predicted overall GDP growth of 3%, roughly the same as the 2006 non-oil GDP growth of 2.9%. This is about equal to estimated population growth and slightly below what he estimated as the accumulated inflation of around 7% over two years (or 10% over 5 years). This suggests essentially zero or slightly negative real per capita GDP growth, he said.

Perception of Rising Poverty

¶12. (SBU) Both Seck at the World Bank and Kabedi-Mbuyi at the IMF agree that Cameroon's relatively high per capita income of $1,080 belies a perception of growing poverty. The most current poverty data comes from the household survey in 2001, which showed a 13% drop in the numbers of Cameroonians below the poverty level, from 55 to 42%. New household

survey data expected in the next few months should help paint a better picture. The 2007/8 UNDP Human Development Index (using 2005 data) ranked Cameroon slightly above the African average and 64th out of 108 developing countries. However, it was toward the bottom of the Medium Human Development category, and 144th out of 177 countries in the index (on a par with the previous year), just above Papua New Guinea and Haiti.

¶13. (SBU) We have heard for a long time from a variety sources of growing frustration among the poor. Cameroon scores below the median on all of the Millennium Challenge Account's Investing in People (health and education) indicators. Most of the country's college graduates are unemployed and overall unemployment and underemployment is estimated at close to 80%. The perception of price rises is higher than the official 4.4% inflation rate would indicate. This may be because of data problems or the baskets of goods used in measuring inflation, or it could just be that prices are rising faster than incomes, heightening the perception of inflation. Recent price rises in foodstuffs like rice and wheat, as well as items like beer and soft drinks -- not to mention fuel -- have heightened inflationary pressure and its negative impact on the poor.

Comment

¶14. (SBU) With high oil and other commodity prices, high liquidity in the banks, significant debt relief, and several major power and mining projects in the works, this should be a window of opportunity for Cameroon to boost itself onto a higher growth path. Moreover, senior levels of the government appear seized with the need to jump-start the economy. The President has highlighted the imperative for economic growth, the Prime Minister formed an Investment

Council and talks of creating a truly one-stop shop for investors, and the Minister of Finance is overseeing steps to improve budget implementation. The Minister of Territorial Administration recently convoked the nation's governors to Yaounde for a pep talk on boosting the economy. However, despite a wealth of stated good intentions, no one can see an easy path out of the stultifying bureaucracy and corruption holding the economy back. When Pol/Econ Chief recently asked why the investment climate is not improving, despite apparently substantial political will, the Director for Economic Affairs at the Presidency threw up his hands and said "that's the million dollar question." He then urged patience, noting the government's need to balance economic growth with other priorities like preserving peace and stability.

¶15. (SBU) If there is no further violence and the government can regain some focus on economic growth, we expect the economy will move forward, with possible new investments this year in mining, energy and other sectors, although the pace is likely to be frustratingly slow. However, there is a very real possibility that the past week's violence will heighten tensions within the government and sharpen the focus on internal politicking, to the detriment of progress on economic reform. Although many observers highlighted the pocketbook grievances of the protesters, in public remarks the GRC essentially dismissed these. The Minister of Commerce explained that commodity prices were high because of global conditions which the government could not affect. The President made no mention of economics in his February 27 speech, leaving the impression that he was insensitive to these problems. At this point, he gives no indication of using this crisis as a platform to accelerate economic reforms, though we expect he will soon try to address some of the immediate cost of living issues. The options will be limited. For example, the GRC already subsidizes fuel by 100 CFA, costing the exchequer a total of $77 million in 2007. There is no doubt that the image of Cameroon's stability -- one of its strongest selling points to foreign investors -- has been damaged and will be further hurt if there is more civil unrest.